HOUSING MARKET OUTLOOK

Kitchener-Cambridge-Waterloo and Guelph CMAs

CANADA MORTGAGE AND HOUSING CORPORATION

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Table of Contents

1 Market at a Glance

2 Resale Home Market

3 New Home Market

4 Local Economy

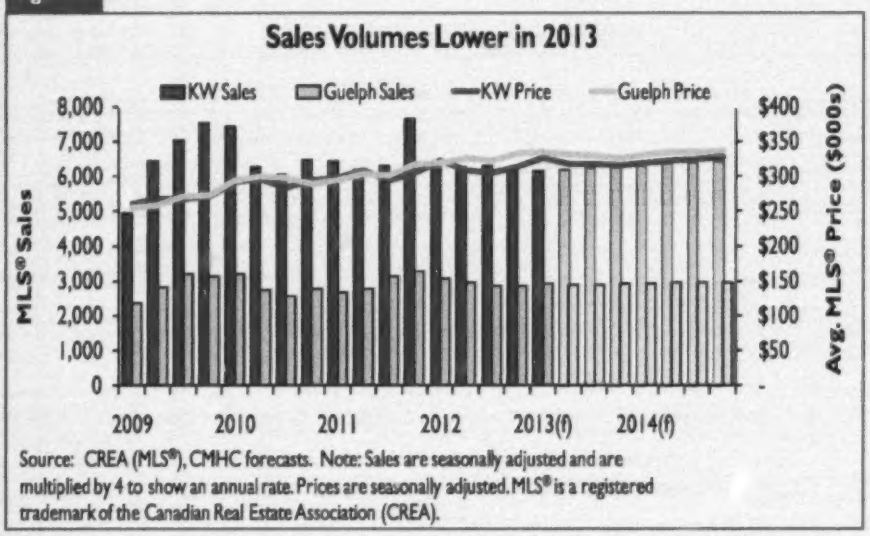
4 Mortgage Rate Outlook

6 Forecast Summary

Market at a Glance

- Existing homes sales will gradually recover from the lower sales in the first quarter of 2013.
- Resale prices will increase slightly in both 2013 and 2014.
- KW market will be balanced. Guelph market will favour sellers.
- New home construction in KCW will decline as apartment starts fall, while increased multiple starts will boost new construction in Guelph.
- Low mortgage rates and population growth will continue to support demand.

Figure 1



Source: CREA (MLS®), CMHC forecasts. Note: Sales are seasonally adjusted and are multiplied by 4 to show an annual rate. Prices are seasonally adjusted. MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

The forecasts included in this document are based on information available as of April 26, 2013.

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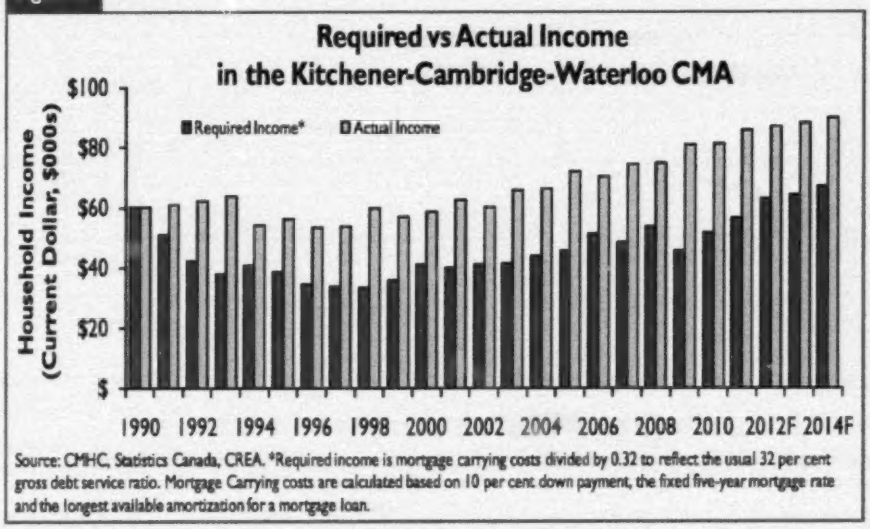
Resale Home Market

Sales will be slightly lower in 2013

Sales of existing homes through the Kitchener-Waterloo Association of REALTORS® will slip by one per cent in 2013, while sales through the Guelph and District Association of REALTORS® will decline by 1.8 per cent. Stronger job growth will support sales gains in 2014. Market conditions have been moderating over the last several months, but will regain some momentum as the year progresses. The slower pace of sales which started in the final quarter of 2012 continued into the first quarter of 2013. Sales have adjusted downward in response to rising homeownership costs and weakness in employment particularly in the second half of 2012. Stronger economic growth and improving first-time buyer demand will support sales later in the year. Low interest rates and population growth through in-migration will continue to support housing demand.

While repeat buyer demand supported the resale market, first-time buyer demand declined. Repeat buyers are less sensitive to economic uncertainty and are households with more equity. On the other hand, higher mortgage payments and higher unemployment meant some renter households delayed their move to homeownership. The low vacancy rate in both KCW and Guelph are an indication that renter households are staying in their current accommodation. Price growth outpaced income growth and eroded affordability early this year. Higher home prices meant mortgage payments to buy the average-priced home increased. With no employment gains for those in the 25-44 age group, many households put their home buying intentions on hold. While many delayed their entry into the ownership market, some households substituted into less expensive homes.

Figure 2

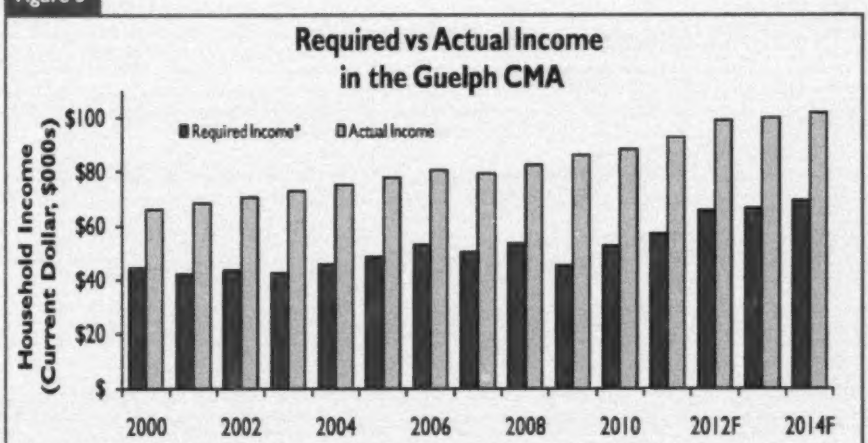


Source: CMHC, Statistics Canada, CREA. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage Carrying costs are calculated based on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

Listings to decline

Although there is a certain level of listings each year, the level of listings is very responsive to price. With no price growth in the last half of 2012 in KW, homeowners had less incentive to move resulting in fewer new listings early in 2013. However, with the strong price growth in the first quarter of 2013, listings moved higher in April. Overall, listings will be slightly lower in 2013. With fewer first-time buyers, there is less demand for the home which move-up buyers are putting on the market. Also, with a lower number of single-detached

Figure 3



Source: CMHC, Statistics Canada, CREA. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage Carrying costs are calculated based on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

homes being completed, fewer homeowners will be listing their home for sale to move to a newly completed home. While the KW market will remain balanced this year, the market in Guelph continues to favour sellers.

Modest price growth

Despite slower sales, prices continued to trend higher. With fewer first-time buyers participating in the market early in 2013 and repeat buyer demand strong for higher-end homes, prices increased early in 2013. Strong competition for homes listed between $500,000 and $750,000 and a higher percentage of repeat buyers have caused selling prices to rise more strongly than expected. However, as more first-time buyers return to the market later this year, the average resale price will move lower. Overall, price growth in KW and Guelph in 2013 is expected to be slightly below two per cent.

New Home Market

KCW starts to decline

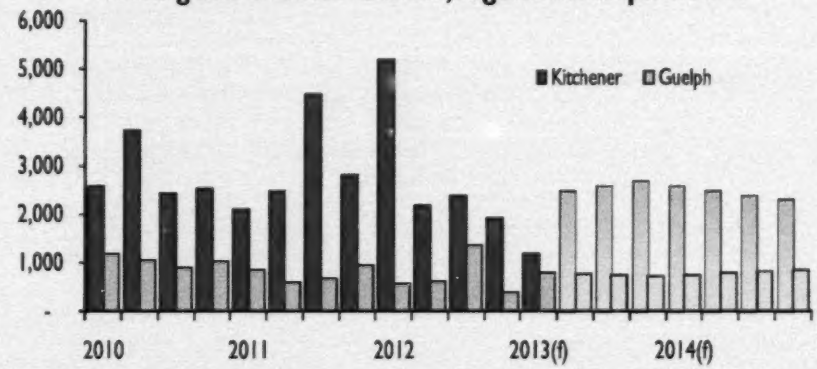
Housing starts in the Kitchener-Cambridge-Waterloo (KCW) and Guelph Census Metropolitan Areas (CMAs) will move in opposite directions in 2013. In KCW, housing starts will drop to the lowest level in more than ten years as apartment construction pulls back. In Guelph, increased higher density housing will push starts higher. Slow employment growth, little growth in discretionary spending and global economic uncertainty will weigh on consumers' intentions to buy a home. A well-supplied resale market in KW and higher new home prices will create headwinds for new home construction this year. Starts in both CMAs will move higher in 2014.

In KCW, after two years of above-average apartment construction, a significant part of demand for both rental and condominium apartments has been satisfied. In addition, with a temporary hold on new apartment projects close to the universities in Waterloo, construction of apartments geared to students, which was a large percentage of apartment construction in 2012, has slowed. Overall, apartment starts will decline by 35 per cent in 2013. Condominium apartment construction will hold up better than rental this year. Although demand has been satisfied in the short term, young adult households, immigrants, downsizing seniors, and one-person households will support apartment construction in the longer term. Semi-detached and townhouse construction should be relatively unchanged in 2013. These housing types are a relatively more affordable option to the more expensive single-detached homes. Higher density housing is in line with the Region of Waterloo Official Plan and Places to Grow.

Single-detached construction in KCW will be limited by the availability of land as well as economic conditions. The number of single-detached starts in a year is a function of the number of registered lots and demand. Demand is impacted by employment growth, prices, and the state of the resale market. Single-detached starts could increase in 2013 due to the increase in the number of registered lots available at the beginning of the year, but the slow employment growth expected in 2013 will delay some home purchases. There will be little support from repeat buyers for new homes as full-time employment in the 45-64 age group has declined in the past year. The number of couples with children, who are the majority of buyers of single-detached homes, is on the decline and has impacted demand for larger homes. Overall, single-detached construction will remain below average, declining by eight per cent in 2013. Costs to build new single-detached homes continue to increase due to the increase in the cost of land, government imposed chargers, materials and labour costs. This is reflected in the more than 13

Figure 4

Housing Starts Lower in KCW, Higher in Guelph in 2013



Source: CMHC forecasts. Starts are seasonally adjusted and are multiplied by 4 to show an annual rate.

per cent increase in the price of new single-detached homes in the last year.

Guelph starts to increase

Guelph starts will increase in 2013 due to the growth in townhouse and apartment construction. In line with Places to Grow and the City of Guelph intensification targets, higher density housing will be stronger. A demographic shift to smaller households will support townhouse and apartment construction. Single-detached construction will remain subdued in 2013 as registered lot availability is low. Although starts will be higher in 2013, growth is limited by the slow economic growth weighing on households and their purchasing power.

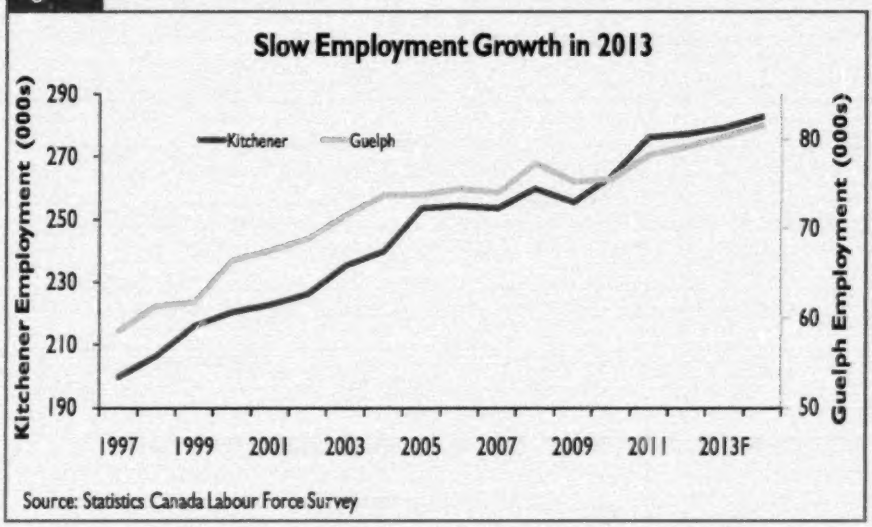
Local Economy

Slow employment growth

Slow employment growth is expected in 2013 but an ongoing US economic recovery will support Kitchener's economy by 2014. Some businesses may be reluctant to hire in the immediate term in the face of continued global uncertainty. Although employment has picked up early in 2013, slightly less than 5,000 fewer people were employed in KCW at the end of the first quarter of 2013 than were employed a year earlier. Most of these jobs were full-time. The lower employment level weighed on housing demand. In Guelph, the picture was the same with slightly more than 4,000 fewer jobs than at the same time last year.

In KCW, full-time job losses were in all age groups, impacting both first-time and repeat buyers and demand for both homeownership and rental

Figure 5



Source: Statistics Canada Labour Force Survey

housing. In Guelph, job losses were centred in the 25-44 age group which would impact mainly first-time buyers. Job growth in the 15-24 and 45-64 age groups supported both rental demand and move-up buyer demand.

KCW and Guelph have a diverse economy, but with job losses in the last year, some sectors are struggling. Both the goods-producing sector and the services sector have shed jobs in the past year. Public sector employment is facing headwinds from governments balancing their budgets. A general slowdown in the growth of consumer spending will lead to less hiring in the services sector. As the housing markets slow, spending on a range of items associated with moving into a new home will decline.

Average weekly earnings in KCW and Guelph will increase by less than two per cent in 2013 and 2014. Earnings will not increase as fast as in previous years as many of the sectors with the highest wages are also the sectors which have had job declines over the past year, i.e. public administration, professional and scientific, fire and manufacturing.

Despite the slow employment growth in both CMAs, a higher percentage of the population is working and actively seeking work than in other areas of Ontario. A strong labour market versus other areas in Ontario means both CMAs will attract migrants. Migration accounts for close to 60 per cent of population growth. In KCW, migration will average close to 3,700 in the next two years, and in Guelph, 1,100. This strong migration will support housing demand.

Mortgage Rate Outlook

Mortgage rates to see modest and gradual increases, but will remain low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in

GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Forecast Summary
Kitchener-Cambridge-Waterloo CMA
Spring 2013

	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	1,255	1,186	871	800	-8.2	850	6.3
Multiples	1,560	1,768	2,029	1,465	-27.8	1,590	8.5
Semi-Detached	94	38	42	40	-4.8	40	0.0
Row/Townhouse	498	286	431	425	-1.4	450	5.9
Apartments	968	1,444	1,556	1,000	-35.7	1,100	10.0
Starts - Total	2,815	2,954	2,900	2,265	-21.9	2,440	7.7
Average Price ($):							
Single-Detached	378,811	394,169	434,415	443,000	2.0	452,000	2.0
New Housing Price Index (% chg.)	1.3	2.9	2.9	2.0	-	2.0	-
Resale Market							
MLS® Sales	6,553	6,641	6,314	6,250	-1.0	6,400	2.4
MLS® New Listings	10,573	11,028	11,433	11,100	-2.9	11,300	1.8
MLS® Average Price ($)	291,182	301,841	312,418	318,000	1.8	324,000	1.9
Rental Market							
October Vacancy Rate (%)	2.6	1.7	2.6	2.8	0.2	2.8	0.0
Two-bedroom Average Rent (October) ($)	872	889	908	930	-	955	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	263,700	276,100	277,300	279,500	0.8	283,000	1.3
Employment Growth (%)	3.2	4.7	0.4	0.8	-	1.3	-
Unemployment rate (%)	8.0	6.8	6.6	6.5	-	6.4	-
Net Migration	3,088	3,795	3,784	3,700	-2.2	3,750	1.4

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Guelph CMA Spring 2013	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	406	260	275	255	-7.3	275	7.8
Multiples	615	504	456	500	9.6	530	6.0
Semi-Detached	34	50	44	50	13.6	50	0.0
Row/Townhouse	391	197	210	225	7.1	230	2.2
Apartments	190	257	202	225	11.4	250	11.1
Starts - Total	1,021	764	731	755	3.3	805	6.6
Average Price ($):							
Single-Detached	385,227	436,502	436,385	445,000	2.0	454,000	2.0
New Housing Price Index (% chg.) (Ont.)	2.4	3.6	4.1	n/a	-	n/a	-
Resale Market							
MLS® Sales	2,834	2,982	2,929	2,875	-1.8	2,950	2.6
MLS® New Listings	4,542	4,507	4,478	4,400	-1.7	4,500	2.3
MLS® Average Price ($)	295,207	305,100	325,554	330,000	1.4	335,000	1.5
Rental Market							
October Vacancy Rate (%)	3.4	1.1	1.4	1.5	0.1	1.6	0.1
Two-bedroom Average Rent (October) ($)	887	903	941	965	-	990	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	75,500	78,300	79,300	80,300	1.3	81,500	1.5
Employment Growth (%)	0.3	3.7	1.3	1.3	-	1.5	-
Unemployment rate (%)	7.9	5.6	5.5	5.4	-	5.3	-
Net Migration	1,292	1,143	1,111	1,100	-1.0	1,125	2.3

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** Percent change > 200%
Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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